

**GOVERNMENT SERVICES COMMITTEE****December 14, 2011****Roughrider Room, State Capitol****North Dakota Department of Transportation****Francis G. Ziegler, P.E., Director**

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Mr. Chairman and members of the committee, I'm Francis Ziegler, Director of the North Dakota Department of Transportation (DOT). Today, I'm here to respond to the questions from the committee on the following:

1. Costs included in the fees charged for use of the department's airplanes.
2. Operating costs for each airplane for each of the last three years.
3. Information on the number and costs of temporary employees.

**1. Costs included in fees**

The North Dakota Department of Transportation develops rates for three DOT owned aircraft. These rates are based on:

- Actual, historical operating costs.
- Reserves for high cost, long term, recurring items such as engine replacement and overhaul.
- Depreciation
- Recovery or refund of prior over or under-applied revenues.

The process and components used to develop these rates are detailed in Attachment A, which is the official DOT policy for aircraft rate development. This is basically the same process used to develop rates for State Fleet Vehicles; it is fully compliant with 2 C.F.R. Part 225 – *Cost Principles for State, Local and Indian Tribal Governments*. Compliance with this regulation allows our aircraft usage costs to be applied to federal programs as applicable.

**2. Operating costs**


Operating costs are shown in Attachment B which illustrates costs for each of the three DOT airplanes for the last three complete fiscal years.

**3. Temporary employee number and costs**

The DOT employed 11 individuals as temporary employees at various times during the past year for flight scheduling and aircraft operation duties. The total cost for those 11 temporary employees was \$80,070.

This concludes my testimony, thank you for the opportunity to appear before the committee today.

## *Attachment A*

**Agency:** North Dakota Department of Transportation  
**Author:** Financial Management Division  
**Contact Person:** Lynn Doll  
**Group:** Accounting Manual  
**Category:** Air Services  
**Policy Number:** 22.2  
**Title:**  Aircraft Rental Rates  
**Original Date:**  
**Revised Date:** 7/14/2008

### **AIRCRAFT RENTAL RATES**

The following 3 components are included in calculating Air Services rental rates:

#### **1. Pilots' Salaries:**

- a. Direct Labor and Payroll Additives - All labor and payroll additives charged to a dept ids: 9740, 9741, and 9742 via appropriation 80110. This includes all permanent and temporary labor and the payroll additives.
- b. This annual payroll expense will be totaled and then divided by the corresponding year's total labor hours to arrive at a Pilot Hourly Rate

#### **2. Aircraft Expenses:** These expenses are distinguished by charge to by aircraft or group number or a prorate of other overhead expenses.

- a. Parts, Etc. - Repair parts, fuel, oil, and other fees and services charged to an aircraft or group using dept ids: 9740 and 9741 via appropriation 80130
- b. Air Services Overhead - All administrative charges to Air Services operations and the salary any other person employed by the Air Services division that isn't a pilot. These costs are accumulated and prorated once a month to Air Services groups based on the total active units.
- c. Pilot Training – All expenses required for pilots' training will be compiled and added to the Aircraft Expense.
- d. Sales of Aircraft - A gain or loss on the sale of aircraft by group will be calculated and included in the rental rate computation.
- e. Over/Under Applied - The difference between rental income and total cost for each aircraft group will be calculated at least annually. The rate computation will include the adjustment for over/under applied revenues.
- f. Any other capitalized asset purchased by Air Services whose profile doesn't begin with "VG", will be gathered via the query

NDS\_DOT\_FLEET\_OTHER which gathers the depreciation by the fiscal year. Systems & Financial Operations will journal the total FY depreciation into the GL air services overhead in June so it can be used in the rate calculation for the end of each fiscal year.

3. **Reserve:** This provision is made for events which fulfill all three of the following conditions:
- a. Have a pre-defined occurrence and reoccurring in nature.
  - b. Material in nature with a cost exceeding \$20,000.
  - c. Have certainty to its happening.

Determination of reserve will be made on a case by case basis. Documentation of this determination will be maintained in the Financial Management Division's rate files as well as any resulting outlay for a reserve.

Note: The Air Service rate DOES NOT include pilot per diem for meals, lodging, landing fees, misc. These will be billed out to the agencies by the flight that they occur. Receipts that are required by IRS regulations for reimbursement will be kept with the original expense vouchers at the Dept of Transportation Financial Management division.

The usage rates for Air Services will be computed based on actual and imputed actual revenues, expenditures, and reserves; adjusted for prior over- and under-applied revenue, and gain or loss on disposal. Separate rates will be computed for operating costs and depreciation costs. The aircrafts initial rates (starting July 2008) will be based solely on actual historical costs for the preceding 18 months.

The rates will be computed annually. More frequent adjustments will be made if needed due to unexpected fluctuates of costs or usage.

The procedures for computing the rates are as follows:

1. Determine the current year-to-date revenue, gain or loss on disposal, expenses, and usage from the vehicle group master and PeopleSoft revenue query and the gain/loss on disposal worksheets.
2. Determine the prior year over/under applied revenue from the rate computation worksheet for the prior year.
3. Adjust the current year-to-date revenue with the prior year over/under applied revenue to arrive at the current adjusted revenue. When computing the depreciation rate, the gain or loss on disposal should also be considered when arriving at current adjusted revenue.

If the prior year revenue was over-applied, add it to the current year-to-date revenue to obtain the current adjusted revenue.

If the prior year revenue was under-applied, subtract it from the current year-to-date revenue to obtain the current adjusted revenue.

If there was a gain on disposal, add it to the current year-to-date revenue when computing the current adjusted revenue (for the depreciation rate only).

If there was a loss on disposal, subtract it from the current year-to-date revenue when computing the current adjusted revenue (for the depreciation rate only).

4. Compare the current adjusted revenue and the current year-to-date expenses to determine current over/under applied revenue.

If the current adjusted revenue is greater than the current year-to-date expenses, the difference is current over applied revenue.

If the current adjusted revenue is less than the current year-to-date expenses, the difference is current under applied revenue.

5. Adjust the current year-to-date expenses with the current over/under applied revenue to arrive at the current adjusted expenses.

If there is current over applied revenue, subtract it from the current year-to-date expenses to arrive at the current adjusted expenses.

If there is current under applied revenue, add it to the current year-to-date expenses to arrive at the current adjusted expenses.

6. Divide the current adjusted expenses by the current usage to arrive at the current rate.

The following example illustrates the application of these procedures for the operating rate. Assume the following:

Beginning Usage Rate = \$10.00/mile or hour

	<u>Expenses</u>	<u>Usage</u>
Year 1	\$ 90	12 miles/hours
Year 2	\$100	10 miles/hours
Year 3	\$100	10 miles/hours

The Current usage rate for each year is computed as follows:

YR	CURR YTD REV	PRIOR YEAR OVER (UNDER) APPLD REV	GAIN (LOSS) ON DISPOSAL	CURR ADJ REV	CURR YTD EXPNS	CURR OVER- APLD REV	CURR UNDER- APLD REV	CURR ADJ EXPNS	CURR YTD USAGE	CURR RATE
1	120	--	--	120	90	30	--	60	12	5.00
2	50	30	--	80	100	--	20	120	10	12.0 0
3	120	(20)	--	100	100	--	--	100	10	10.0 0

### Guidelines for Depreciation

The Air Services Division, through discussions with top management, will establish the department's policy for aircraft replacement. They will decide:

- a. Hours aircraft to be in service.
- b. Years aircraft to be in service.

The department's policy may change periodically; however, it should not be volatile. Generally, the depreciation schedule for a particular aircraft will not change once it has been established.

Air Services will send written notification to the Financial Management Director when a change in aircraft replacement policy is forthcoming. This will generally be immediately prior to purchasing new aircraft.

Financial Management Division will use this information as well as the estimated salvage value to determine the current depreciation schedule to be assigned to each group of new units. Estimated salvage value is based on a percentage of new aircraft cost as dictated by recent sales.

All vehicle depreciation is straight line over the useful months' life of the aircraft minus the estimated salvage value.

**Attachment B**  
**North Dakota Department of Transportation**  
**Aircraft Operating Costs**  
**July 1, 2008 - June 30, 2011**

	1998 Beechcraft King Air*			1977 Piper Cheyenne*			1975 Cessna Skymaster**		
	2010-2011	2009-2010	2008-2009	2010-2011	2009-2010	2008-2009	2010-2011	2009-2010	2008-2009
Total Operating Costs	\$238,405	\$165,124	\$233,697	\$231,264	\$161,664	\$199,938	\$ 155,153	\$60,070	\$44,285

*\*Costs incurred in 2008-2009 and 2010-2011 reflect higher usage due to emergency disasters that occurred across the state including flooding and other disaster events.*

*\*\* Costs incurred in 2010-2011 reflect an increase due to the Department of Emergency Services working on a statewide baseline map.*